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ADVANTAGES OF THE PACE ACT TO REA COOPERATIVES
AND
POWER USE ON THE FARM

The law under which the Rural Electrification Administration operates provides for two kinds of electrification. The first is what may be termed "rural electrification", and the second is "farm electrification". When we speak of "rural electrification" we mean the building of distribution lines into rural areas in order to provide farms and rural establishments with central station electric service.

Today I want to discuss, first of all, an important phase of "rural electrification" as it is affected by the provision of the Pace Act which allows co-ops to extend repayment of their debt to the Government over a longer period of time. Second, I wish to present our thinking on what we have just termed "farm electrification"; that is, the development of the use of electricity on the farmstead once the lines are built.

In the years prior to World War II, REA was vigorously pioneering in the field of "rural electrification" and in demonstrating that it could become a reality on a sound, financial basis through cooperative organizations.

Most of you are probably familiar with certain objectives which were set up at that time in order to assure economic feasibility of the loans; in other words, to make sure that the cooperatives would be operating on a sound enough basis to pay back their debts. It was considered necessary to have three consumers per mile of line, guaranteed revenues of \$12 to \$18 per mile, and to set increased minimum charges for those farms located some distance from proposed lines. In short, providing electric service to scattered farms and the less densely populated areas was not contemplated

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seriously at that time. Yet community-minded cooperative officials frequently called our attention to the big problem which they recognized - that all potential consumers in the area should be treated alike.

Because of the steady growth of this feeling and because of the demand by farmers everywhere for electric service, especially during the war years, the idea of area coverage has become a definite part of postwar planning, and increasing emphasis is put upon it by REA. Passage of the Pace Act by Congress grew out of recognition of this same problem of service for all and the need for more liberal financing of the REA cooperatives in order to achieve this objective.

When Boards of Directors of REA Cooperatives accept loans through REA, they also accept an obligation, whether they realize it or not, to take electricity to all rural people living in the service area of their cooperatives. After all, someone had to be first to get electricity, and someone has to be last.

Let me quote a paragraph from a letter written by Mr. Wickard, the Administrator of REA:

"REA co-ops owe their existence to a Federal law whose purpose is to make electric energy available 'to persons in rural areas who are not receiving central station service'. This does not mean service only to those who can be reached most easily or with the least expense. It means all who can be served without destroying the co-op's ability to meet its loan repayments. It was in recognition of this principle that the Congress a year or two ago amended the Act to lower interest rates and increase the amortization period further."

It is now possible to organize new cooperatives in areas where the farm density is below what once was thought necessary for economic operation of a cooperative. Existing cooperatives can now extend service more readily into sparsely settled areas which were previously disregarded. Under the Pace Act, which lowers the interest rate to 2% and spreads the repayment of the loan over 35 years, the amount of money which must be set aside each year for repayment of the debt is reduced approximately 18%. This money, known to you bookkeepers as "debt service", is one of the larger items charged against income. With reduced charges against income, cooperatives can operate with less revenue, and, at the same time, they can invest more in relation to revenue expected.

The keystone of area coverage, therefore, rests on the average costs and revenues required to serve all consumers. Advantages of the Pace Act -- reduced interest and reduced charges against income -- permit existing cooperatives now serving the better areas to reach out to the more scattered farms. Overall costs and revenues still meet economic feasibility requirements.

Area coverage is practicable. That has been proven. But there are still other advantages. Cooperatives that have been operating successfully for several years obviously can readjust their rates downward -- a plan probably not considered before the concept of area coverage came into the picture. Here is a distinct and worthwhile benefit to the present cooperative members, many of whom pioneered and initiated the REA cooperatives. Why shouldn't the members of this generation who have worked hard to bring electricity to the farms enjoy the fruits of their efforts now,

rather than turning the benefit, increased 100-fold, to succeeding generations? In other words, why saddle the debt of social and community improvements upon the present generation alone? If these benefits are handed down to future generations, on a "silver platter" so to speak, they may appreciate it the least, even though they benefit the most. I believe there is a generally accepted saying to the effect that you get only as much out of anything as you put into it. Spreading the repayment of the loan over several generations is comparable in a way to area coverage. The more who benefit from the program, the more will have a part in repaying the loan.

A large number of cooperatives have reached a certain stage of maturity. They have enough members and revenue to meet all obligations promptly and even to accumulate balances which will now become capital credits. Along with maturity, a certain feeling of independence has arisen among some cooperative officials and managers. They want to stand on their own feet and not be obligated to the Government or to anyone else. Officials who feel this way are naturally reluctant to take advantage of the Pace Act, especially in extending their loan repayment to 35 years. It might be said that some of them are becoming self-satisfied. Instead of feeling obligated to provide service to unserved farms in the area, their policy seems to be to take what they have, make the most of it, and get out of debt as rapidly as possible. This idea particularly prevails among some boards of directors who want to pay off the loan in less than 35 years. As a matter of fact, it might be assumed that they are ready to employ the same policies followed by the power companies before REA was created.

A partial explanation of this attitude lies in the philosophy of the farmer himself. The farmer, by the very nature of his vocation, habits, and associations, is an individualist. He believes in the profit theory. He borrows money, goes into debt to purchase a farm, and expects to pay for it out of the profits of his farming enterprise. He pays taxes of all kinds; in fact he is one of the heaviest taxpayers in the country.

He may start out as a hired man on someone else's farm, gradually saving enough money to start farming as a tenant. As a tenant he continues to accumulate his savings until he finally buys a farm of his own.

Then the cooperative association enters the picture - REA or otherwise. These same farmers, with their individualistic tendencies, join hands to form cooperative societies in order to provide themselves with goods and services which they could not obtain from individual effort. In the management of the cooperative by the board of directors it is only natural that a somewhat cautious, let's-think-this-over attitude, should creep in. Farmers like to see their cooperative not only serve its members, pay its expenses and obligations, but also lay up a reserve for future needs or unforeseen difficulties. More than any other one factor this philosophy explains the reluctance on the part of a few cooperative officials to accept area coverage, long time payments, rate adjustment, and others.

There is one argument in this connection that the farmers will not ignore. They recall very distinctly the years of serious depression in the early '30's. They are not at all certain that the bottom will not fall out of prices again.

Looking ahead to a period of low price levels, cooperatives would be in a much sounder position and could meet their obligations with a greater sense of security under the Pace provision than they could under the old 25-year plan.

Another danger of the 25-year plan of repayment arises from the inclination of cooperatives to accumulate large cash balances as a protection against extreme business fluctuation and unforeseeable misfortune. These cash balances not only are vulnerable to taxation, but they are also in danger of being lost through shortsighted investment or business operation by the co-op management.

There is another factor to be considered - taxes. We have just mentioned the tendency of some cooperative officials to continue present revenues, pay off obligations, and accumulate cash balances. This practice has made the taxing of cooperatives an important issue. You have, I am sure, heard and read something about the activities of the Tax Equality League and their efforts to change the basis on which your cooperatives are taxed. It is not our purpose at this moment to discuss or decide this important issue, but rather to point out the threat of excessive tax burdens if cooperatives are to operate under a policy of profit, making an accumulation of surpluses and excess reserves. The true function of the cooperative is to serve its members at cost and to set up any overcharges as capital credits to the members.

We have already said something about rate adjustments. Here again cooperative officials are not inclined, under present conditions, to tamper with rates. The conservative attitude crops up again because any adjustment in rates would affect revenues, including cash balances. Some boards of directors consider these more important than extending the benefit of lower rates to their members. We must not lose sight of the fact that many of the power companies are revising their rate structure not only in rural sections but in some urban centers as well.

In keeping with the idea of area coverage and the principles of cooperation, we want to take the stand that everyone should have electrical service at the lowest possible cost. A true cooperative association, unlike a large industrial corporation operating for profit, should strive at all times to give its members all the benefits and advantages possible from their combined efforts. A rate adjustment is in keeping with this fundamental policy. To act otherwise, denying members full benefits to which they are entitled, is similar to the cooperative's denying service to unserved farms in the area.

Let us briefly summarize our statements about area coverage and extension of loans under the Pace Act:

1. Area coverage can be achieved more readily and economically under the Pace Act than could possibly be hoped for by any other means.
2. With area coverage, the entire community is benefited and the obligation for repayment of the loan rests on the entire community.

3. Greater security in meeting cooperative obligations is assured in the event of a prolonged decline in the price level.

4. Extending electric service on an area basis results in economy of operation plus the advantages of the Pace Act (that is, lower interest rates, and reduced payments).

5. Rate adjustments become possible and practical.

6. With sufficient revenues and balances to meet all obligations, and therefore less need for large cash balances, cooperatives will not be so vulnerable to taxation by both local and state bodies.

7. Finally, cooperatives can do everything under the Pace Act that they could do under the old plan. They can pay off their indebtedness as rapidly as they wish, or, in less prosperous periods, meet only the minimum obligations as required.

To sum it all up in a nutshell, there is little argument against every cooperative in the nation taking advantage of the extended loan period under the Pace Act and going forward with area coverage until the ultimate goal is achieved and electric service is available to every rural establishment.

Turning now from "rural electrification" to "farm electrification", I wish to point out a fundamental fact with which you are thoroughly familiar, but which can never be over-stressed. Yours is a service organization. You sell nothing. It is your constant endeavor to provide better and better service at lower and lower cost. As a service organization it is not enough merely to take electricity to the farms. It is also

your responsibility to teach co-op members how to make the best use of this willing servant.

Too many of us still continue to think of electricity on the farm merely as a pleasant convenience or part of an easier way of living. We may consider it a necessity, but too frequently we fail to look on electricity as a means of increasing income and as a tool to be worked with. I am sure that, as we sit here and think over the problem of "farm electrification", there is not one of you who would fail to agree wholeheartedly that electricity must be used to make money and not merely as a means to spend money.

The Congress, in establishing the Rural Electrification Administration, saw this second responsibility of "farm electrification" when it provided that loans might be made on liberal terms to members both for installing the necessary wiring and for purchasing electrical equipment. You are in the power business, and from the point of view of good business, it is necessary that the power you furnish be used in the largest possible quantities consistent with the best economic and social interests of the members. You may readily agree that there is a job to be done in guiding your members in the use of electricity. Our problem to consider here is how to do the job.

What are the tasks that may be undertaken immediately? Perhaps you have already developed your "A", "B", and "C" sections with "D", "E", and "F" remaining to be developed. From your past experience, we feel sure you will agree that many mistakes could be avoided if employees were assigned to the task of advising members in advance about their wiring

installations and other problems. Such help can also be provided in the installation of plumbing, and any feature of better living or working made possible through electricity.

I would like each manager to ask himself the following questions: "When I make out the assignments for my personnel next Monday, who will be responsible for seeing that my members are making the best possible use of their electricity? What did I do last week to help my members adopt a new use of electricity to raise their income? Which cooperative employees made an effort to help my members use the equipment they already have to better advantage?"

Without a single exception, every manager in this room has more than enough work to do. Because of this, all the divisions in REA are encouraging cooperatives to consider how they can best fulfill their service duties to their individual members. We feel that most systems need to have an employee whose primary duties are to serve the members by giving them information on what equipment is available, when to buy it, and how to use it. To those of you whose previous experience has been in merchandising, it is basic that the "what", "when" and "how" questions be answered in any complete service program. The cooperative must provide all the answers to these questions for its members, if it is to achieve its aim of complete and adequate service.

Permit me to state emphatically at this point that the job cannot be done by employees of the Rural Electrification Administration. It is a job to be done by your service organizations with your own employees.

We in the Rural Electrification Administration shall attempt and are attempting to set up guide lines and to provide as much personnel as we can - our few specialists in this field are booked pretty far ahead - to work with you in setting up educational programs in the use of electricity. You may obtain help locally from the vocational agriculture teachers, the extension service, and other agencies. Primarily, however, the task will have to be done by members of your own organizations.

On this basis we suggest that each manager and board of directors survey the problem of rendering adequate service to their members, determine the personnel required, immediately begin to plan the budget accordingly, and then start to look for the right person to do the job. We will be glad to help in any way possible, either through our field representative or by correspondence, in outlining suggested qualifications for such personnel and in planning their training, activities, and duties. The capabilities of the person doing this advisory work primarily determine his or her success. We feel, therefore, it is most important to begin the task of "farm electrification" by considering very carefully the problem of selecting the person who is to do the actual day by day work.

I would close, therefore, by reminding you again that as a service organization it is not enough for you merely to provide electric service to the premises of rural residents. You have the further responsibility of guiding your members in the best possible use of electricity. Then and only then will you, as directors and employees of your organizations, realize the good feeling that comes from knowing that a task which you have undertaken has been well done.

